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Mary D. Nichols, Chairman
California Air Resources Board
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Chairman Nichols:

I am writing to convey the Government of Canada's views regarding California's draft Low Carbon Fuel Standard (LCFS) regulation. As your country's largest energy supplier, Canada is a key stakeholder in North America's energy future. No other two countries share the broad economic and energy integration that marks the Canada-U.S. relationship. This integration makes it all the more important that we design our regulations with a view to harmony and thereby avoid imposing unnecessary or unforeseen costs on our citizens and businesses. My government is keenly aware of how important such coordination is in respect of the challenge of climate change, and we appreciate the ongoing opportunity to coordinate with you following meetings in July 2008 involving officials from the California Air Resources Board (CARB) and the Governments of Canada and Alberta.

Canada has the world's second-largest proven oil reserves and is the only country within the OECD where oil production is growing, due primarily to increased oil sands production. Canada is also the largest oil supplier to the U.S. market; in 2007, Canada supplied the U.S. with 2.4 million barrels per day, some 18% of U.S. oil imports. In helping to fuel the American economic engine, Canada offers the U.S. enhanced energy security which benefits both our countries economically.

With this common economic security comes profound environmental responsibility. We strongly support the LCFS' objective of reducing greenhouse gas (GHG) emissions and, indeed, Canada is committed to the same goal. The Government of Canada has committed to an absolute reduction in GHG emissions of 150 megatonnes, or 20 percent,

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from 2006 levels by 2020, and is taking strong measures in this regard through a comprehensive regulatory plan. For the first time, the federal government will establish regulations requiring industry, including the oil sands sector, to reduce GHG emissions. Reductions from the oil sands, in part through investment in carbon capture and storage technologies, are a key component of this plan.

The oil sands sector already has a long history of technology innovation that has led to improvements in energy efficiency and associated emissions reductions from oil sands processing. Between 1990 and 2006, oil sands GHG emissions per barrel were reduced, on average, by 32 percent, one of the best emissions reduction achievements by Canadian industry. Under the federal climate change plan, life-cycle emissions from oil sands production will be reduced to levels comparable to lighter crudes.

Under California's draft LCFS regulation, the definition of conventional oil is based on three very different methods of recovery, while the definition for non-conventional oil refers to different sources of liquid fuel, including oil sands, oil shale, and coal and gas to liquid technologies. Unlike the other crudes categorized as non-conventional in the draft LCFS regulation, oil sands production is not experimental or novel but mainstream and commercially developed by Canadian, U.S. and other multinational oil companies without government incentives. In 2007, oil sands production was 1.2 million barrels per day, with most of this production bound for the U.S. market. By including oil sands in the non-conventional category, the draft LCFS regulation effectively singles out oil sands crude from all other crudes that currently supply the North American market.

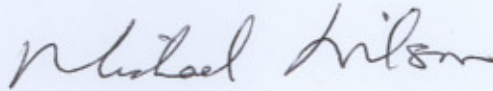
If the carbon intensities of all oil sands derived crude oils were significantly higher than those of all crude oils deemed "conventional", then it could be appropriate for the LCFS to treat oil sands derived crude oils differently than "conventional" crude oils. However, this is not the case. As shown by our officials to CARB staff when they met, some crude oils that might be deemed "conventional" could have carbon intensities about the same as, if not higher than, oil sands derived crude oils.

Since differences in the carbon intensity of oil sands crude and the so called "conventional crudes" can be minor to non-existent, we believe the draft LCFS regulation creates an artificial distinction between oil sands crude and other crude oils. This proposed categorization might unintentionally favor crudes that meet the "conventional" criteria but are equally or more carbon intensive than oil sands derived crude. This would run counter to the objective of the LCFS and could also compromise energy security if oil sands crude was displaced by less reliable supplies or with supplies at greater risks of disruption.

We believe that if CARB considers the range of carbon intensities of crude oils from various sources deemed "conventional", rather than just an average, it will conclude that there is insufficient basis for the LCFS regulation to treat oil sands derived crude differently than "conventional" crude.

The Government of Canada will continue to collaborate with CARB to ensure that our respective measures best meet our common objective of reducing GHG emissions. As we in North America adjust to lower our emissions, we must also recognize that oil will continue to play a significant role in our economies for some time yet. The challenge for us is to manage our production and consumption wisely, while also recognizing the important contribution of Canadian energy supplies to U.S. energy security.

Sincerely,



Michael Wilson

c.c. Arnold Schwarzenegger, Governor of California
Linda S. Adams, Secretary for Environmental Protection, State of California
Dale Bonner, Secretary for Business Transportation and Housing, State of California
Mike Chrisman, Secretary for Resources, State of California
Jackalyn Pfannenstiel, Chair, California Energy Commission
Stephen L. Johnson, Administrator, Environmental Protection Agency
Brian Duggan, Office of International Energy and Commodity Policy, Department of State
Kathy Deutsch, Office of Policy and International Affairs, Department of Energy
Honourable Laurence Cannon, Minister of Foreign Affairs, Canada
Honourable Stockwell Day, Minister of International Trade, Canada
Honourable Jim Prentice, Minister of Environment, Canada
Honourable Lisa Raitt, Minister of Natural Resources, Canada
Consul General David Fransen, Consulate General of Canada, Los Angeles
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Honourable Mel Knight, Alberta Minister of Energy
Honourable Rob Renner, Alberta Minister of Environment
Honourable Ron Stevens, Alberta Deputy Premier and Minister of International and Intergovernmental Relations